

Auditor-General of South Africa

Indaka Local Municipality – audit  
report 2015-16

# **Report of the auditor-general to the KwaZulu-Natal Provincial Legislature and the council on Indaka Local Municipality**

## **Report on the financial statements**

### **Introduction**

1. I audited the financial statements of the Indaka Local Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2016, the statement of financial performance, statement of changes in net assets, cash flow statement and the statement of comparison of budget with actual information for the year then ended, as well as the notes, comprising a summary of significant accounting policies and other explanatory information.

### **Accounting officer's responsibility for the financial statements**

2. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Local Government: Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2015 (Act No. 1 of 2015) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor-general's responsibility**

3. My responsibility is to express an opinion on the financial statements based on my audit. I conducted my audit in accordance with the International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the municipality's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

## **Opinion**

6. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Indaka Local Municipality as at 30 June 2016 and its financial performance and cash flows for the year then ended, in accordance with the SA Standards of GRAP and the requirements of the MFMA and DoRA.

## **Emphasis of matters**

I draw attention to the matters below. My opinion is not modified in respect of these matters.

### **Events after the reporting date**

7. As disclosed in the accounting officer's report in note 2 to the financial statements, the municipality was affected by the re-determination of boundaries in terms of the Provincial Notice 151 of 2016 issued in the Provincial Gazette No.1723, dated 29 July 2016. The Department of Cooperative Governance and Traditional Affairs issued a notice in terms of Section 12 of the Local Government: Municipal Structures Act, 1998 for the disestablishment of the Emnambithi/Ladysmith Municipality and Indaka local municipality and the establishment of the new Alfred Duma Local Municipality. The Indaka local municipality will cease to exist as at 9 August 2016.

### **Material impairments**

8. As disclosed in note 10 to the financial statements, material impairments to the amount of R 2,8 million (2015: R 2,5 million) were incurred as a result of the municipality not implementing adequate processes for the collection of outstanding debtors.

## **Additional matters**

9. I draw attention to the matters below. My opinion is not modified in respect of these matters.

### **Unaudited supplementary schedules**

10. The supplementary information set out on pages x to x does not form part of the financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion thereon.

### **Unaudited disclosure notes**

11. In terms of section 125(2)(e) of the MFMA the municipality is required to disclose particulars of non-compliance with the MFMA. This disclosure requirement did not form part of the audit of the financial statements and accordingly I do not express an opinion thereon.

## Report on other legal and regulatory requirements

12. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report findings on the reported performance information against predetermined objectives for selected objectives presented in the annual performance report, compliance with legislation and internal control. The objective of my tests was to identify reportable findings as described under each subheading but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.

### **Predetermined objectives**

13. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the Basic service delivery and infrastructure development objective presented in the annual performance report of the municipality for the year ended 30 June 2016.
14. I evaluated the reported performance information against the overall criteria of usefulness and reliability.
15. I evaluated the usefulness of the reported performance information to determine whether it was consistent with the planned objectives. I further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's Framework for managing programme performance information (FMPPI).
16. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
17. I did not identify any material findings on the usefulness and reliability of the reported performance information for the Basic service delivery and infrastructure development objective.

### **Additional matters**

18. I identified no material findings on the usefulness and reliability of the reported performance information for the selected objective however, I draw attention to the following matters.

### **Achievement of planned targets**

19. The annual performance report on pages x to x includes information on the achievement of the planned targets for the year.

## Adjustment of material misstatements

20. I identified material misstatements in the annual performance report submitted for auditing on the reported performance information for the Basic service delivery and infrastructure development priority. As management subsequently corrected the misstatements, I did not raise any material findings on the usefulness and reliability of the reported performance information.

## Unaudited supplementary information

21. The supplementary information set out on pages x to x does not form part of the annual performance report and is presented as additional information. We have not audited these schedules and, accordingly, we do not express a conclusion on them.

## **Compliance with legislation**

22. I performed procedures to obtain evidence that the municipality complied with applicable legislation regarding financial matters, financial management and other related matters. My material findings on compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA, are as follows:

## Strategic planning and performance management

23. The performance management system was not adopted by council as required by section 38(a) of the Municipal Systems Act, 2000 (Act No. 32 of 2000)(MSA) and the Municipal planning and performance management regulation 8.
24. The service delivery and budget implementation plan (SDBIP) for implementing the municipality's delivery of municipal services and annual budget was not approved by the mayor as required by section 1 and 53(1)(c) of the MFMA.

## Procurement and contract management

25. Goods and services of a transaction value above R200 000 were procured without inviting competitive bids, as required by SCM regulation 19(a).

## Expenditure management

26. Reasonable steps were not taken to prevent irregular expenditure, as required by section 62(1)(d) of the MFMA.

## Revenue management

27. A credit control and debt collection policy was not implemented, as required by section 96(b) of the MSA and section 62(1)(f)(iii) of MFMA.

## Consequence management

28. Irregular and fruitless and wasteful expenditure incurred by the municipality was not investigated to determine if any person was liable for the expenditure, as required by section 32(2)(b) of the MFMA

## Annual financial statements

29. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements of disclosure items identified by the auditors in the submitted financial statement were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.

## **Internal control**

30. I considered internal control relevant to my audit of the financial statements, performance and compliance with legislation. The matters reported below are limited to the significant internal control deficiencies that resulted in the findings on compliance with legislation included in this report.

## Leadership

31. Leadership did not provide adequate oversight and monitoring controls in ensuring that effective measures were taken to address previous findings on irregular expenditure, as well as findings on compliance with legislation. This was due to instability of leadership relating to suspensions and resignations of key management.

## Financial and performance management

32. Adequate reviews and monitoring controls over the compliance with legislation was not implemented resulting in repeat supply chain management findings and other non-compliance identified.

## Reports

33. A report on the investigation of allegations of maladministration against the senior management was tabled by the Department of Co-operative Governance and Traditional Affairs (COGTA) on the 25 February 2016. COGTA concluded on their report that council must implement appropriate action against senior managers who were found guilty of misconduct.
34. Furthermore there are 7 ongoing allegations relating to financial misconduct and improper conduct relating to supply chain management that are being investigated by COGTA. These investigations are still in progress.

*Auditor-General*

Pietermaritzburg

30 November 2016



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SOUTH AFRICA

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